HOUSING MARKET OUTLOOK
Charlottetown CA

CANADA MORTGAGE AND HOUSING CORPORATION

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Highlights

- Housing starts in Charlottetown will remain stable as the supply of MLS® listings remains high and supply of rental units remains accommodative of demand.
- MLS® activity will remain strong across the forecast, moving average prices higher.
- Strong immigrant inflows into Charlottetown will tip the vacancy rate lower.
- A softer Canadian dollar will boost exports and allow employment levels to expand.

Figure 1

Charlottetown CA, Starts

Source: CMHC, (F) Forecast

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The outlook is subject to uncertainty. The forecasts and historical data included in this document reflect information available as of April 29th, 2016.

Housing Starts Weighed Down by Resale Market

Housing demand in the Charlottetown Census Agglomeration (CA) will be shaped by a pattern of migratory and demographic trends, with total starts ranging from 260 to 280 units in 2016 and from 295 to 325 units in 2017. Charlottetown's population is expected to grow from international and intraprovincial migration. It is anticipated that the steady inflow of international migrants will largely settle in larger urban centres like Charlottetown. A growing number of seniors are downsizing and moving into larger centres in search of better access to amenities. These sources of urban population growth will have an impact on new housing stock over the coming years.

Figure 2

Source: Prince Edward Island Real Estate Association, (F): Forecast

Although the population of Charlottetown is set to expand, singles starts are forecast to remain at levels similar to those seen over the past two years, ranging from 130 to 150 units in 2016 and from 145 to 175 units in 2017. Homeownership is not typically front of mind for newly arrived immigrants, but evolves after they have settled and become established in their new community. Even amongst established Islanders, however, demand for new homes will be dampened by the ample supply of existing homes for sale. For those homebuyers that will always prefer new construction, low interest rates with employment and wages gains will support these homebuyers in their decision.

Multiples starts are forecast to range between 120 and 140 units in 2016 and between 135 to 165 units in 2017. Homeownership products, such as semi-detached and row houses are forecast to become a more significant portion of total multiples starts in the coming years. Demand for these housing units will be supported by first-time homebuyers and seniors looking for homes with a smaller footprint.

International immigration and seniors looking to downsize into the lower maintenance requirements of rental housing will contribute to the demand for rental accommodations. The number of rental apartments breaking ground over the forecast horizon will be modest as much of the growth in demand will be met by new units nearing completion.

Note to readers

In an effort to align itself with the various needs of those seeking information about the housing market, CMHC's Market Analysis Centre has undertaken a complete review of its products and services. As a part of this review, the CMHC's *Housing Market Outlook* publication will be undergoing a series of modifications. The general objective is to provide a range of possible outcomes that, in a context of economic and financial uncertainty, will better help users in their decision-making process.

As a first step in this ongoing process, the present edition incorporates forecast ranges for housing variables as well as an expanded discussion on the risks to the forecast. A more detailed description of the forecast range methodology is provided at the end of the publication.

Resale Activity Driven by Flows from Interprovincial Migration

Interprovincial migration flows have been key to the recent activity within the resale market. In 2015, an estimated 6,712[1] people moved across Prince Edward Island's borders, with 2,790 people moving into the province and 3,922 people moving out of the province. This volume of movement creates a substantial amount of turnover, which was apparent within the resale market last year. There were 1,665 MLS® sales on Prince Edward Island in 2015, a 20.7 per cent increase over year-earlier levels. Charlottetown's resale market followed a similar trend, recording a 10.5 per cent increase in MLS® sales over 2014 levels.

The diminished appeal of Alberta will moderate out-migration somewhat over the forecast, however, opportunities in provinces such as Ontario and British Columbia will continue to draw people away from the Island. The outflow will keep the resale market flush with a fresh supply of listings.

Migration into and out of Charlottetown will create a steady flow of MLS® transactions. Growing employment levels, the continuation of lower interest rates, and a softer Canadian dollar will encourage additional MLS® sales as people feel more comfortable buying a home in Charlottetown. As a result, MLS® sales are set to remain above 2015 levels across the forecast period, ranging between 650 and 730 transactions in 2016 and between 615 and 705 transactions in 2017.

Figure 3

Source: Prince Edward Island Real Estate Associates, (F): Forecast

Charlottetown has remained solidly within buyers' market conditions, an environment where the supply of resale homes available to potential buyers exceeds the level demanded by the market. As a result, price growth has typically been below the target rate of inflation of two to three percent, in addition to having been quite variable. For example, the year-over-year change in average prices fell 2.8 per cent in 2013, grew 7.9 per cent in 2014, and then declined by 1.0 per cent in 2015. Going forward, sales levels are expected to be better matched to the flow of new listings being brought to market. This will promote a more consistent trend upward for average prices. MLS® average prices are forecast to be between $211,500 and $212,500 in 2016 and between $214,600 and $221,400 in 2017.

1 Statistics Canada

Rental Demand Fuelled by International Immigration and Aging Demographics

Charlottetown's rental market will see steady growth in demand as a result of a growing population. Charlottetown's population is forecast to expand by 1.5 per cent to 71,200 people in 2016 and by 0.7 per cent in 2017 to 71,700 people. Net migration will be a key part of this population story, with provincial forecasts of 1,250 people in 2016 and 300 people in 2017. The expectation is that a large majority of these newcomers will be new to Canada and will tend settle in Charlottetown. Other sources of rental demand include an evolving international student population at the University of Prince Edward Island and a segment of the senior population that is looking to transition into rental housing.

The supply of purpose-built rental apartments in Charlottetown has expanded by 30.9 per cent over the past seven years. An average of 160 new rental apartments were added each year. Although vacancy rates have fluctuated somewhat during this expansionary period, the added supply has been balanced by growth in demand. New units will continue to be added to Charlottetown, albeit at a slower pace relative to recent years.

The various migratory forces growing Charlottetown's population, including the anticipated 250 Syrian refugees, will reduce the number of vacant units and will move the vacancy rate lower to 3.6 per cent in 2016. The following year, vacancy rates will remain reasonably stable at 3.8 per cent as population growth moderates.

Average rents are forecast to inch upwards in 2016 as a result of the zero per cent allowable rent increase decision regulated by the Island Regulatory and Appeals Commission (IRAC). It is unlikely, in our opinion, that IRAC would maintain a zero per cent allowable rent increase for two consecutive years. It is therefore expected that average rents would move modestly higher in 2017 to $845, reflecting expectations for tighter rental market conditions.

The population of Charlottetown is set to grow despite the growing trend in out-migration. Charlottetown's urbanization and evolving cultural diversity will make it an attractive hub for newcomers to the Island, whether they be from other Canadian provinces or abroad. Islanders from other areas of the province are also being drawn into Charlottetown, coming for the convenient access to amenities and services and employment opportunities. Employment levels in Charlottetown are forecast to grow by 1.1 per cent in 2016 and 0.8 per cent in 2017.

Export Industries Set to Win from Lower Canadian Dollar

Economic growth for Prince Edward Island will continue at a modest pace over the forecast horizon. A softer Canadian dollar and stable U.S. economy will support the local economy across various export segments, including: aerospace, agriculture, and seafood processing. Tourism will also benefit from lower gasoline prices and the stronger U.S. dollar. As the province's largest urban centre, Charlottetown will indirectly benefit from the increased activity in these export-based industries.

Modest employment growth is expected in Charlottetown over the forecast horizon as export-driven industries expand production to take advantage of the lower Canadian dollar. Employment levels are expected to grow 1.1 per cent to 37,100 in 2016, followed by a 0.8 per cent increase in 2017. Trends for the labour force will closely mirror those for employment, as international immigration will grow the working age population. As a result, the unemployment rate will remain reasonably stable over the forecast horizon.

The population of Prince Edward Island and Charlottetown are expected to grow over the next two years. Charlottetown's population will expand by 1.5 per cent in 2016 and by 0.7 per cent in 2017. Migration is the main component of this population story, with net migration expected to add 1,250 people in 2016 and 300 people in 2017. International migration will be the key inflow for Charlottetown as these newcomers settle in the city. Downsizing seniors moving into Charlottetown from other communities will be another source of population growth. Despite these inflows, there are also people leaving. Out-migration is expected to moderate somewhat over the forecast due to the diminished appeal of Alberta. Despite fewer people leaving for Alberta, opportunities in provinces such as Ontario and British Columbia will continue to draw people away from the Island.

Mortgage rates are expected to rise moderately from current levels in 2017

Mortgage rates are expected to stay near current levels until the end of 2016, supporting housing demand. Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to gradually start rising from current levels in the first half of 2017. This expected profile for mortgage rates is in line with the Bank of Canada's view of the economy returning to its full capacity by the end of 2017, according to its April 2016 Monetary Policy Report.

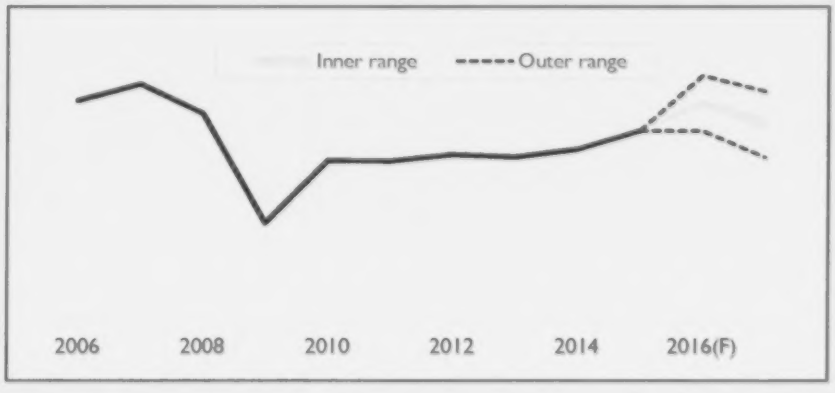
According to CMHC's base case scenario, the five-year mortgage rate is expected to be within the 4.4 to 5.0 per cent range in 2016 and within the 4.7 to 5.3 per cent range in 2017.

Methodology for forecast ranges

The present edition of *Housing Market Outlook* incorporates forecast ranges for housing variables. Despite this change, all analyses and forecasts of market conditions continue to be conducted using the full range of quantitative and qualitative tools currently available. Two sets of ranges are presented in the publication:

- An inner range, which provides more precise guidance to readers on the outlook while recognizing the small random components of the relationship between the housing market and its drivers. This inner range is based on the coefficient of variation* of historical data and on past forecast accuracy. This range provides precision and direction for forecasts of housing variables, given a specific set of assumptions for the market conditions and underlying economic fundamentals.
- An outer range, which reflects potential risks to the forecast due to, for example, the impact of economic shocks. The outer range is based on a broader coefficient of variation of historical data and on past forecast accuracy. This range includes some low-probability events that could have a significant impact on the forecast.

Downward (or upward) adjustments to the ranges may be applied based on local market intelligence if there are more sources of risks (upside or downside) for that specific market.



* The coefficient of variation in this case is the standard deviation divided by the mean of that series. A higher coefficient of variation would produce wider ranges due to the higher volatility of the data, while a lower coefficient of variation would produce tighter ranges.

Trends at a Glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Mortgage rates are expected to stay near current levels until the end of 2016, supporting housing demand. Interest rates are expected to gradually start rising from current levels in the first half of 2017, becoming less accommodative for housing demand.
Employment	Employment gains are set to be made as export-driven industries begin to expand production, taking advantage of the lower Canadian dollar. This will be a shift from the past two years where employment levels declined and will be a positive for housing demand.
Income	Real average weekly earnings are forecast to grow, benefiting from regional economic growth and an expansion of full-time employment.
Population	Charlottetown's population is set to grow from an inflow of international immigrants that is more than sufficient to offset out-migration. These newcomers are likely to rent upon arrival, but vacancy rates are such that expansion of rental units will be modest.
Resale Market	The ample supply of resale homes will provide potential home buyers with a variety of housing options, placing downward pressure on new home demand.
Vacancy Rates	Continued international immigration and the IRAC regulated residential rent increase of zero per cent will support a preference towards rental over home ownership. Above-average vacancy rates and the completion new rental units will temper construction of new rental units.

Risks to the Forecast:

Uncertainty is inherently present in every forecast. This uncertainty, also referred to as risks to the forecast, can impact the economic and housing outlook for Charlottetown and result in a wider range of possible outcomes versus our baseline view. The greatest risk to the forecasts lie within our population assumptions, and the components of that growth:

- Population for both Charlottetown and Prince Edward Island are forecast to grow over the forecast horizon, with immigration acting as is the primary contributor. The majority of these international newcomers tend to settle initially in rental accommodations located in larger urban centres such as Charlottetown. Should immigration continue to grow, either as a

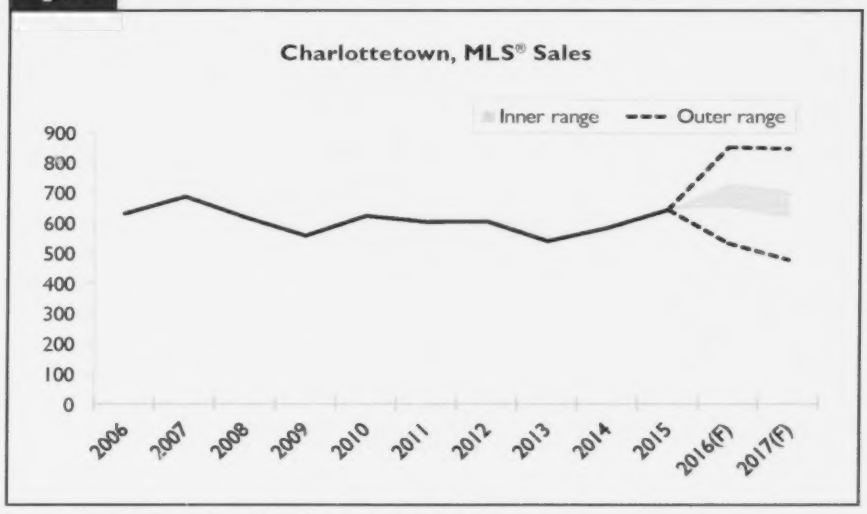
Figure 4

Source: CMHC, (F) Forecast

preferential destination or through additional refugees, homebuilders could expand the stock of rental apartment units at a faster than expected pace. Similarly, if the retention of recent immigrants were to improve, demand could grow for new home ownership products. Either of these events would move the total starts forecast towards the upper bound of the wider range. Conversely, a significant slowdown in immigration or an acceleration in the number of recent immigrants moving out of the province would result in housing starts being closer to the lower bound of the wider range.

- Out-migration from Prince Edward Island over the past five years has steadily grown, with 3,922[2] people leaving in 2015. This is an elevated level for the Island, one not seen since 1981, and was largely attributable to Islanders leaving for Alberta[3]. A prolonged downturn within the oil and gas sector, could reduce out-migration and curtail the number of MLS® sales that would have otherwise occurred. There could also be fewer MLS® sales if employment gains are tempered by a faster than expected rebound in the Canadian dollar. These two events could move the MLS® sales forecast towards the lower bound of the wider range.

Figure 5



Source: Prince Edward Island Real Estate Associate, (F): Forecast

Figure 6

Source: Prince Edward Island Real Estate Associate, (F): Forecast

[2] Statistics Canada.
[3] Statistics Canada.

- In-migration to Prince Edward Island has remained at historic lows since 1993. Additionally, Prince Edward Island's retention rate[4] for recent immigrants has moved lower over recent years. Should trends in either in-migration or retention shift to either a flat or upward trajectory, population growth would strengthen and consequently support higher levels of demand for resale homes. As a result, MLS® sales could shift towards the upper bound of the wider range.
- Charlottetown's population benefits from gains in international and intraprovincial migration that are sufficient to offset any losses from out-migration. Should a greater number of people decide to leave Charlottetown, the supply of active listings could increase beyond their already supple levels. This would add to the supply-side pressures within the market and place downward pressure on prices such that they are more in-line with the lower bound of the wider range. A similar result would happen should fewer people move to Charlottetown. Conversely, demand for resale homes could increase if economic and employment prospects exceed forecast expectations. This would see Charlottetown's population grow via interprovincial and intraprovincial migration, and increase demand for resale homes. This increased demand, if sufficient, could eat into the supply of existing homes and place some upward pressure on prices. As a result, average MLS® prices could move towards the upper bound of the wider range.

[4] The retention rate looks to capture the proportion of tax filing immigrants that landed in Prince Edward Island that still claim Prince Edward Island as their province of residence.

Forecast Summary Charlottetown CA Spring 2016							
	2013	2014	2015	2016(F)		2017(F)	
				(L)	(H)	(L)	(H)
New Home Market							
Starts:							
Single-Detached	160	138	129	130	150	145	175
Multiples	278	121	162	120	140	135	165
Starts - Total	438	259	291	260	280	295	325
Resale Market							
MLS® Sales	537	581	642	650	730	615	705
MLS® Average Price($)	191,293	206,432	204,462	211,500	212,500	214,600	221,400
Economic Overview							
Mortgage Rate(5 year)(%)	5.24	4.88	4.67	4.40	5.00	4.70	5.30

	2013	2014	2015	2016(F)	2017(F)
Rental Market					
October Vacancy Rate (%)	7.9	5.9	4.2	3.6	3.8
Two-bedroom Average Rent (October)($)	804	836	830	832	845
Economic Overview					
Population	68,395	69,382	70,129	71,200	71,700
Annual Employment Level	36,950	36,775	36,700	37,100	37,400

Multiple Listing Service® (MLS®) is a registered trademark of the Canadian Real Estate Association (CREA).

Rental Market: Privately initiated rental apartment structures of three units and over.

The forecasts (F) included in this document are based on information available as of 29th April 2016. (L)=Low end of Range. (H)=High end of range.

The low end (L) and the high end (H) of forecast ranges for residential housing starts for singles and multiples jointly may not add up to the total. This is due to rounding and volatility of the data.

Source: CMHC (Starts and Completions Survey and Market Absorption Survey), Statistics Canada, Prince Edward Island Real Estate Association, CMHC Forecast (2016-2017)

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly Starts and Completions Survey. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's Market Absorption Survey, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October **Rental Market Survey** (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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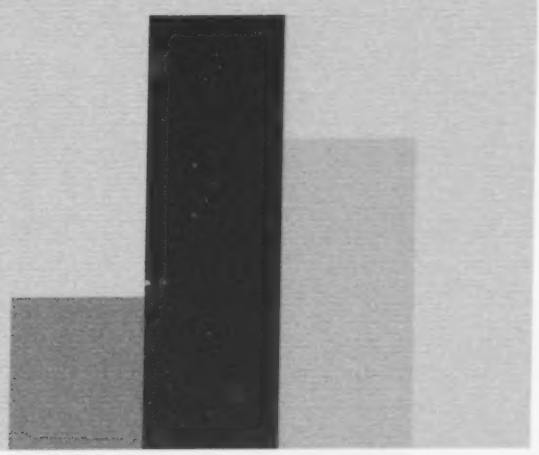

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